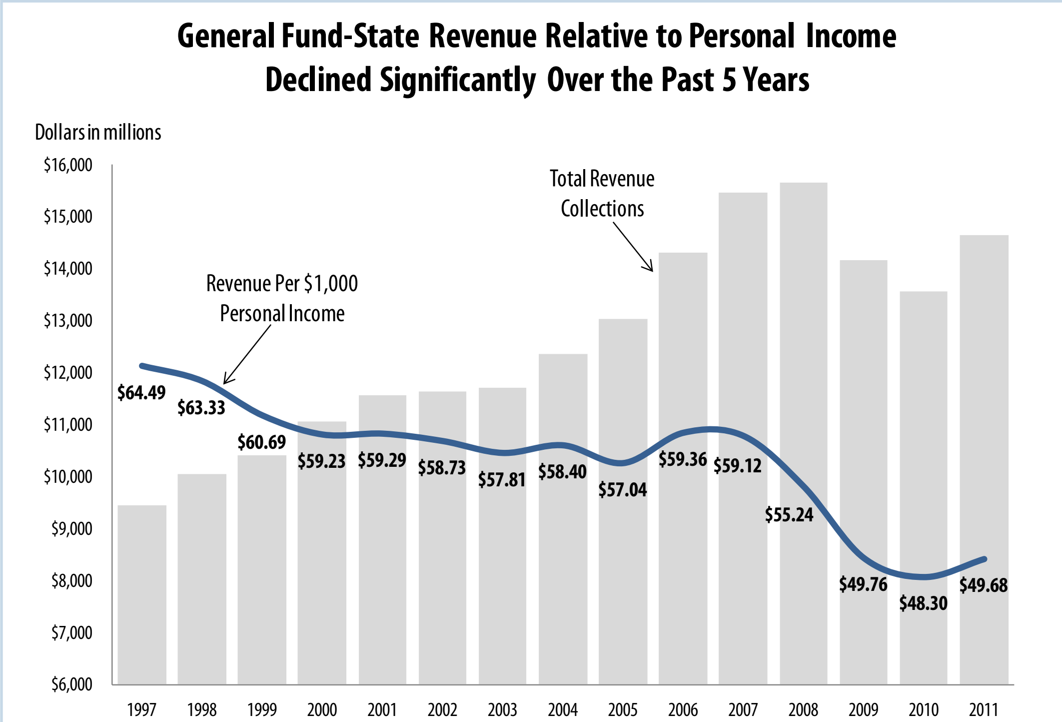

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Historic Recession Erodes Revenue, Drives up Demand for Government Services

Just as it has taken a heavy toll on businesses and households, the Great Recession has dealt a major blow to government programs and services. Beginning in 2008, state revenue collections fell for two consecutive years and, for the first time in the past 40 years, overall state spending — including federal stimulus funds — will fall for two consecutive biennia.

State revenue growth decelerated significantly in fiscal year 2008 and declined in fiscal years 2009 and 2010. Though growth resumed in 2011, revenues were still 7.2 percent below the 2008 peak and revenue growth for 2012 is flat.

According to the latest forecast, General Fund-State revenue is expected to total $30.2 billion during the current biennium. By contrast, if annual revenue growth since 2008 had held at the expected 4.5 percent rate, the state would have taken in more than $38 billion.

The Great Recession has hit Washington state particularly hard. In addition to stalled employment growth, overall personal income growth has been slowed. Complicating the picture is the fear many workers have about the weak labor market.

This has lead to a "hunker down" mentality and a higher savings rate, both of which delay consumer spending. Since Washington is heavily reliant on consumption (sales) taxes, the lingering crisis of consumer confidence has stymied revenue growth.

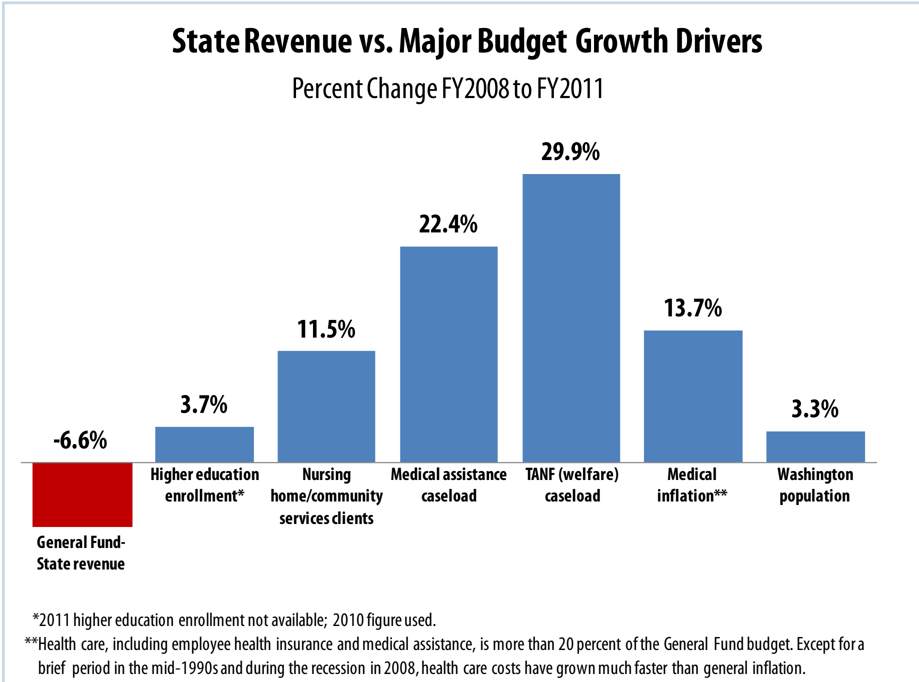
What is very clear is that Washington's ongoing revenue crisis is largely out of our hands. Congress' intransigence last summer in addressing our nation's debt problem rattled consumer confidence even further. And the problem is now compounded by the looming debt crisis in Europe.

Because of the pull-back in consumer spending and increased savings, the relationship between personal income and state revenues has continued to weaken. In 1997, General Fund-

Revenue

State revenues represented more than $64 for each $1,000 of personal income. By 2010, revenues represented less than $49 for each $1,000 of personal income.

As goes revenues, so follows spending. Washington's general operating expenditures have mirrored the same pattern as revenues: peaking in fiscal year 2008, declining in 2009 and 2010. Likewise, the relationship between general expenditures and personal income are also similar. From the mid-to-late 1980s, expenditures averaged more than 6.5 percent of total personal income. But that percent has been trending downward since then and, as of fiscal year 2011, state government operating expenditures represented just 5.2 percent of total personal income.



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As is typically the case during economic downturns, as revenue has declined, demand for state services has grown. To illustrate: General Fund-State revenue fell by nearly 7 percent from fiscal year 2008 to fiscal year 2011. But during that same period, the number of people receiving help from the Temporary Assistance for Needy Families (welfare) program swelled by nearly 30 percent. Similarly, the number of people receiving state medical assistance increased by 22 percent, and the number of people in state-supported nursing homes or community care settings grew by nearly 12 percent.

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When Governor Gregoire and the Legislature approved the 2011–13 budget last spring, the state was projected to end the biennium with more than $700 million in reserve. But after three consecutive downward revenue forecasts — including another $122 million drop this month — the state now faces a $1.4 billion revenue shortfall for the current biennium.